



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

FILED

12-04-07
04:59 PM

Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.	Investigation 07-01-022 (Filed January 11, 2007)
In the Matter of the Application of Golden State Water Company (U 133 W) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.	Application 06-09-006 (Filed September 6, 2006)
Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates.	Application 06-10-026 (Filed October 23, 2006)
Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.	Application 06-11-009 (Filed November 20, 2006)
Application of Suburban Water Systems (U 339 W) for Authorization to Implement a Low Income Assistance Program, an Increasing Block Rate Design, and a Water Revenue Adjustment Mechanism.	Application 06-11-010 (Filed November 22, 2006)
Application of San Jose Water Company (U 168 W) for an Order Approving its Proposal to Implement the Objectives of the Water Action Plan.	Application 07-03-019 (Filed March 19, 2007)

**REPLY COMMENTS BY GOLDEN STATE WATER COMPANY
AND DIVISION OF RATEPAYER ADVOCATES REGARDING
COMMENTS ON SETTLEMENT AGREEMENT**

Keith Switzer
Vice President of Regulatory Affairs
Golden State Water Company
630 East Foothill Boulevard
San Dimas, California 91773
Phone: (909) 394-3600,
KSwitzer@gswc.com

Marcelo Poirier
Attorney
DIVISION OF RATEPAYER
ADVOCATES
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2913
Fax: (415) 703-2262
mpo@cpuc.ca.gov

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.	Investigation 07-01-022 (Filed January 11, 2007)
In the Matter of the Application of Golden State Water Company (U 133 W) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.	Application 06-09-006 (Filed September 6, 2006)
Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates.	Application 06-10-026 (Filed October 23, 2006)
Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.	Application 06-11-009 (Filed November 20, 2006)
Application of Suburban Water Systems (U 339 W) for Authorization to Implement a Low Income Assistance Program, an Increasing Block Rate Design, and a Water Revenue Adjustment Mechanism.	Application 06-11-010 (Filed November 22, 2006)
Application of San Jose Water Company (U 168 W) for an Order Approving its Proposal to Implement the Objectives of the Water Action Plan.	Application 07-03-019 (Filed March 19, 2007)

**REPLY COMMENTS BY GOLDEN STATE WATER COMPANY
AND DIVISION OF RATEPAYER ADVOCATES REGARDING
COMMENTS ON SETTLEMENT AGREEMENT**

I. Procedural Background

On October 19, 2007, Golden State Water Company ("GSWC") and the Division of Ratepayer Advocates ("DRA" and together with GSWC, the "Parties") filed a Motion to Approve Settlement Agreement on WRAM and Conservation Rate Design Issues (the "Motion"), with a Settlement Agreement executed by GSWC and DRA (the "Settlement Agreement") attached thereto.

Under the Settlement Agreement, the Parties agree that the conservation rate design and relating decoupling mechanisms (WRAMs and MCBAs) constitute a Pilot Program to become effective 90 days after the Commission decision adopting the

Settlement Agreement. The conservation rate designs are proposed for six of the nine GSWC ratemaking areas.¹ In Region II and Region III ratemaking areas, the conservation rates for residential customers will consist of a reduced service charge and increasing block rates with two tiers.² For non-residential customers in Region II and Region III, the conservation rates will consist of a reduced service charge and an increased uniform quantity charge.

In the ratemaking districts of Bay Point, Simi Valley, Los Osos, and Santa Maria in the Region I area, the Parties propose an interim conservation rate design of a reduced service charge and an increased uniform quantity charge for all customers. Under the Settlement Agreement, the Parties agree that evaluation of further reductions to the service charge and implementation of conservation rates for customers in these ratemaking districts must be delayed until the resolution of the pending Region I general rate case.

Pursuant to Administrative Law Judge's Ruling Taking Hearings on Golden State Water Company's Amended Application Off Calendar, dated October 30, 2007 ("October 30 Order"), the filing of the Settlement Agreement makes hearings on GSWC's Amended Application moot. In accordance with Rule 12.2 of the Commission's Rules of Practice and Procedure, the parties to this proceeding had thirty days (*i.e.*, November 19, 2007) to file comments on the Settlement Agreement.

On November 19, 2007, the Comments of the Consumer Federation of California on the Settlement Agreement Between the Division of Ratepayer Advocates and Golden State Water Company on WRAM and Conservation Rate Design Issues ("CFC Comments") and Comments of the National Consumer Law Center, the Utility Reform Network, Latino Issues Forum and Disability Rights Advocates on the Conservation Rate Design Settlement of Division of Ratepayer Advocates and Golden State Water Company ("Joint Consumers' Comments") were filed.

¹ GSWC has nine ratemaking districts: Arden Cordova, Ojai, Clearlake, Bay Point, Los Osos, Santa Maria, Simi Valley (these seven ratemaking districts make up Region I), Region II (South Bay area of Los Angeles County) and Region III (mountains and upper desert areas of Southern California, portions of Orange County and a number of cities in the Inland Empire region east of Los Angeles).

² The service areas of Wrightwood and Desert in Region III are excluded from the rate design of two-tiered rates and reduced service charges as described in more detail in Section IV(C) of the Settlement Agreement.

Pursuant to Rule 12.1 of the Rules of Practice and Procedures of the California Public Utilities Commission, the Parties' submit their reply comments to CFC's and Joint Consumers' comments below.

II. Reply to Joint Consumers' Comments

The Joint Consumers believe that an aggressive notice and outreach campaign is necessary to ensure that GSWC's consumers understand the changes to their bill, the reason for the changes, and how the new bill amounts are calculated.³ Joint Consumers also believe that in order to gauge the effect of the proposed conservation rates on residential consumers, and low-income consumers in particular, certain data points and reports are crucial.⁴

GSWC and the Joint Consumers have recently reached an agreement in principle on collection of data points, reporting schedules, consumer outreach and education issues. Furthermore, GSWC expects to be submitting a settlement with the Joint Consumers reflecting such agreement in principle in the very near future.

III. Reply to CFC's Comments

A. *No Cost Allocation Study is Necessary.*

CFC claims the Parties have proposed charging different rates to residential and non-residential customers without first determining how GSWC's cost of service should be allocated to each of these classes of customers.

It is important to emphasize that the rates proposed in the Settlement Agreement maintain the existing allocation of costs between GSWC's residential and non-residential customers. In developing the tiered rates proposed in the Settlement Agreement, the Parties calculated the amount of revenues currently recovered from residential customers as a group and from non-residential customers as a group, and designed the proposed conservation rates to recover the same amount of revenues from each group under the conservation rates proposed in the Settlement Agreement. Since revenue requirements are synonymous with cost allocations, the proposed conservation rates cause no change in cost allocation between the two customer groups. This structure ensures that the cost

³ Joint Consumers' Comments at 3.

⁴ *Id.* at 5.

allocation previously approved by the Commission is maintained. Accordingly, no cost allocation study is necessary.

B. *Rates in Region III Are Consistent with BMP 11.*

CFC claims the proposed conservation rates in Region III are not consistent with BMP11 and sets forth in its comments a chart purportedly setting forth the percentage of revenues to be collected from customers under the new proposed rates.

CFC incorrectly refers to the *existing* rates in Region III, which are not consistent with BMP 11. A correct reading of the charts (Page 2 of Attachment 1) in Settlement Agreement regarding the *proposed conservation* rates for Region III, demonstrates that the proposed rates are, in fact, consistent with BMP 11. Set forth below are the correct numbers for the Region III proposed rates under the Settlement Agreement.

BMP 11 Threshold Test	Residential	Non-Residential	Total
Service Charge % revenue	30.61%	30.19%	30.44%
Quantity Charge % revenue	69.39%	69.81%	69.56%
Total	100.00%	100.00%	100.00%

C. *The Method Used to Develop the Conservation Rates is Reasonable.*

CFC criticizes the process and parameters used by the Parties to develop the proposed conservation rates in the Settlement Agreement.⁵ However, there are many parameters that are factored into developing rates and it is not a single parameter in isolation but the interplay of them that is inherent in the ratemaking process. CFC does not provide the Commission with alternative parameters or methodologies that CFC believes should be used to develop conservation rates.

In Section IV.E, and Section IV.F of the Settlement Agreement, the Parties set forth the rate design parameters they used to develop the proposed rates. In addition, the Parties provided CFC with a list of the parameters that were primarily considered in determining the reduction of service charges:

1. Whether the reduction of the service charge meets the 30/70 percent threshold set forth in BMP 11.

⁵ CFC Comments at 7.

2. Whether low-water users (at winter average) will see a decrease in their monthly bill while high-water users (at summer average) will see an increase in their monthly bill.

3. Whether the number of customers receiving a bill decreases as compared to the number of customers receiving a bill increase was reasonable.

4. Whether the amount of the increase in customers' bills as compared to the amount of the decrease in customers' bills was reasonable.

5. Whether the resulting cash flow remains sufficient to support a level of earnings necessary to meet existing debt obligations.

CFC claims the cited parameters explain how the combined fixed-variable rates were determined, but not the service charge.⁶ In proper rate design, the amount of fixed charges and variable (quantity) charges, and their affect on customers, are calculated and analyzed on an integrated basis. Neither charge is developed in isolation.

In summary, the parameters set forth above, combined with the parameters set forth in the Settlement Agreement, provide a clear picture of the multiple factors that the Parties took into account in developing the conservation rates proposed in the Settlement Agreement. CFC raised similar concerns in Phase 1A of this proceeding in the Suburban DRA settlement.⁷ Suburban Water Systems and DRA explained that guiding principles such as equity, simplicity, and revenue neutrality were used to develop the conservation rates. The implication by CFC that the rates were developed using ill-defined, arbitrary parameters or techniques is wholly unfounded and CFC's objections should be dismissed.

D. *The Rates for Residential and Non-Residential Customers in Regions II and III Are Reasonable*

CFC notes that the rates for residential and non-residential customers in Region I are the same. For residential and non-residential customers in Regions II and III, however, CFC notes there are different rates per Ccf for residential and non-residential customers and claims such differential rates are unfair and unreasonable. If there is no need to separate rates between residential and non-residential customers in Region I, CFC questions why separate rates for customers in Region II and III are necessary.⁸

⁶ CFC Comments at 7.

⁷ Transcript I.07-01-022 Phase 1A EH volume 1 page 25 Joyce Steingass start line 26 "as I mentioned...through page 26, line 10.

⁸ CFC Comments at 8.

As stated in Section IV.D of the Settlement Agreement, the Parties agree to delay implementation of revised conservation rates in the remaining ratemaking areas in Region I pending the determination of a new revenue requirement for Region I. In pending Region I rate case, GSWC is seeking an increase of 11.26% in Bay Point, 42.24% in Los Osos, 36.52% in Santa Maria, and 22.42% in Simi Valley. GSWC's Region I's last general rate case was filed in 2000. The Parties were concerned about the dramatic affect of a substantially higher rate increase coupled with a new conservation rate design that contemplates higher quantity rates. Also, the adopted numbers GSWC is currently working with to design conservation rates date back to 2000. Designing new conservation rates based on outdated adopted numbers might result in fundamentally-flawed rate designs.

As part of the Settlement Agreement, the Parties committed to modifying the Region I rates within 90 days of the resolution of the pending Region I GRC. Accordingly, under the Settlement Agreement, GSWC shall file an application proposing revised conservation rates to replace the interim conservation rates for Bay Point, Los Osos, Santa Maria, and Simi Valley to be consistent with the Settlement Agreement. New conservation rate design for Region I will be consistent with the conservation rate design we use for Region II and Region III of the settlement.

There is a reasonable basis for establishing different rates for residential and non-residential customers in Regions II and III. While in the aggregate, residential consumption accounts for the majority of total usage for GSWC' ratepayers, per-customer usage by non-residential customers is higher than per-customer usage by residential customers. Therefore, the effect of the increase in the quantity rate will be significantly higher for non-residential customers because while there are fewer of them, each non-residential customer has higher usage than the typical residential customer. One of the rate design parameters the Parties agreed to was not increasing non-residential customer bills by more than 10%. From CFC's example, even though the quantity charge for non-residential customer is lower than those of residential, usage in non-residential customer is higher resulting in a higher bill when compared to residential customers. Thus, the resulting rate differential between residents and non-residents in Regions II and III is fair and reasonable.

E. *It Is Reasonable that Non-Residential Customers Do Not Have Tiered Rates at the Outset of the Pilot Program.*

CFC claims that the Settlement Agreement's lack of any tiered rate proposal for non-residential customers leaves the majority of GSWC's sales in Region II and more than one-third of GSWC's sales in Region III unaffected by the conservation price signals of tiered rates.⁹

Also, CFC claims that the lack of any tiered rate proposal for non-residential customer leaves the majority of GSWC's *sales* in Region II and more than one-third of GSWC's *sales* in Region III unaffected is based on usage. CFC's claim is somewhat misleading.

The chart below shows that the number of residential customers in both Region II and Region III is substantially higher than the number of non-residential customers in those Regions.

	Residential	Non-Residential	Total
Region II			
Number of Customers	72,190 (71%)	27,003 (27%)	99,193
Region III			
Number of Customers	78,735 (89%)	10,139 (11%)	88,874

As the chart above demonstrates, the lion's share of GSWC's customers in Regions II and III will be subject to a two-tiered conservation rate proposal under the Settlement Agreement.

The usage level of non-residential customers in Regions II and III is substantially higher than the usage levels of residential customers. The Parties proposed a conservation rate design for non-residential customers in Regions II and III by increasing their quantity charge and decreasing their service charge, consistent with BMP 11. Given the high usage level of most non-residential customers, an increase in the single quantity rate under the Pilot Program will result in a substantial increase in the water bill of non-residential customers, thereby sending a strong economic signal to non-residential customers to conserve.

⁹ CFC Comments at 9.

F. *The 15% Differential Between Tier 1 and Tier 2 Rates Is Reasonable.*

CFC claims the differential between the first tier and second tier is based upon the Parties' "unilateral judgment that conservation rates should be introduced slowly and on undisclosed calculations and "adjustments" to make revenues fall 'within 1% of what single quantity rate would result in' . . .¹⁰ However, the Parties are permitted and expected to utilize their long and collective experience in developing water rates and introducing such new rate designs to GSWC customers.

CFC also refers to other water companies and the differentials in their tiered rates. However, each water company has a unique set of circumstances and customer needs. To apply the same differential to each water company, as CFC seems to suggest, is contrary to fundamental rate design, which requires balancing various factors to derive rates that are just and reasonable. CFC further claims that the creation of the differential in the East L.A. service area "has a discriminatory effect."¹¹ However, this is not applicable since GSWC does not serve the East L.A. service area.

CFC objects to calculations and adjustments deemed necessary to make revenues fall "within 1% of what a single quantity rate would result in . . ."¹² In the Settlement Agreement the Parties proposed: "If the general criteria above do not achieve target revenues, Tier 1 will be adjusted until revenues are within 1% of what a single quantity rate would result in give the same amount of fixed and variable costs allocated to the volumetric charges."¹³ When designing the conservation rates, one of the Parties' goals was to design a set of rates that are revenue neutral. Revenue neutrality is a foundational tenet of rate making. Revenue neutrality requires that the proposed rate design should collect the same amount of revenues at the adopted sales level as an equivalent uniform rate design. To achieve revenue neutrality, DRA and GSWC agreed upon designing rates that are plus or minus 1% of the target revenue requirement to allow a reasonable degree of flexibility in rate design. This type of approach is common and is used by rate design professionals.

¹⁰ CFC Comments at 10.

¹¹ CFC Comments at 10.

¹² *Id.*

¹³ Settlement Agreement, Section IV.E.2.e.v.

G. *The Commission Should Reject Establishing a Given Amount of Water for Any Customers As Water Rationing.*

CFC asserts that under the Settlement Agreement, the average usage data in low use months does not match the alleged testimony of a witness in the Phase 1A proceeding. According to CFC, Mr. Herbert, a witness for San Jose Water Company and Park Water Company, testified "that 6 ccf of water per month will satisfy the basic needs of an average family."¹⁴ CFC provides no specific reference where this alleged testimony can be found in the Phase 1B transcripts. Nor does CFC refer to or describe testimony in this proceeding that defines what "basic needs" of an "average family" are. GSWC was not involved in the Phase 1A proceedings and is not bound by testimony provided regarding other water utilities' proposed conservation rates. However, CFC was present at the Phase 1A hearings where TURN's witness, Mr. Finkelstein, defined a large household as "anything larger than mine, which is four" and goes on to explain that what a large household is depends on circumstance.¹⁵ Finally, CFC contradicts Mr. Herbert's apparent testimony by suggesting that CFC believes 10 to 11 Ccf, not 6 Ccf, per month is needed.¹⁶

Even assuming, *arguendo*, that CFC accurately portrays Mr. Hebert's testimony, CFC provides no basis upon which to conclude that Mr. Hebert's testimony is relevant or applicable to GSWC's customers, who live in diverse geographic regions in California. CFC's "one size fits all" approach is more akin to water rationing, because it predetermines what an appropriate level of use is, rather than designing water conservation rates that send economic signals to conserve. The Commission should reject such an approach and address the unique needs of the customers of each water utility on a case-by-case basis.

H. *There is Confusion Between Data Provided Under the Amended Application with Data Provided in the Settlement Agreement.*

CFC asserts that the attachments to the Settlement Agreement show average winter usage in Region II as 12 Ccf and in Region III as 16 Ccf. CFC claims that these

¹⁴ CFC Comments at 11.

¹⁵ Finkelstein testimony at pp. 99, 123-128.

¹⁶ CFC Comments at 11.

amounts differ from those provided in GSWC's response to CFC's data request (17.64 Ccf – Region II and 18.9 Ccf in Region III).¹⁷

The data request CFC is referring to is CFC's data request regarding GSWC's Amended Application, *not* the Settlement Agreement. The reason there is a difference is that under GSWC's Amended application, a residential customer is classified as a customer with codes 1, 2, 3 or 4. There are more multi-unit customers in the residential classification under the Amended Application, causing the winter average usage to be much higher than the resident classification under the Settlement Agreement, where the customer classification code for residential customer is only "1". In other words, the same data was used but a narrower subset of customers, those designated as "1" or detached single family residences, was used to design the proposed rates in the settlement whereas the entire group was used for the application. The narrower subset used in the settlement results in more targeted price signals and corresponding ratepayer impact because the average of the subset is more representative of those customers whereas the average in the application includes single and multi family homes.

I. *High Use Customers Will Receive a Strong Price Signal Under the Pilot Program.*

CFC also claims "the parties impliedly admit that very weak price signals will be sent to high usage customers, when they argue 'bills will increase in summer months, as they currently do.'" CFC's implication is unfounded.

In Attachment 1, Worksheet 2 RII Typical Bill and Worksheet 2 RIII Typical Bill show that customers' bill will, in fact, increase in summer months under the conservation rates proposed in the Settlement Agreement when compare to current rates. The Parties believe that the fact that customers' bills will increase in summer months under the proposed conservation rates send a very strong price signal, without inducing rate shock. Rate shock can result in wholesale customer rejection of new rate designs. The proposed changes in pricing are accompanied by GSWC's conservation programs and coordinated conservation programs GSWC has with regional purveyors such as the Metropolitan Water District. Such an event would undermine the Commission's Water Action Plan and its efforts to implement conservation rates.

¹⁷ *Id.* at 11-12.

CFC further asserts that rate reductions for average and low-use customers do not encourage conservation.¹⁸ However, the Parties must design rates that are revenue neutral. If the revenue received from some customers increases because of increased rates (*e.g.*, rates for high-usage customers), then revenues received from other customers' rates *must* decrease in order to preserve revenue neutrality.

J. *Some Conservation Measures Are Expensive.*

CFC claims that the Parties' explanation for the differential between Tier 1 and Tier 2 of approximately 15 percent is based upon an assumption that measures needed to help customers conserve water “are too expensive and, consequently, that bills should not increase very much.”¹⁹ CFC misconstrues the Parties' position. The Parties stated that many conservation measures contemplate long-term investments. A 15 percent difference between the tiers provides an incentive for customers to reduce their consumption in the short term to the extent they are able, and to consider long-term conservation investments. The Parties believe the 15 percent differential also takes into account that customers may not have the resources to immediately make long-term conservation investments. A differential greater than 15 percent may provide an excessive burden on usage that customers are unable to control in the short term. Thus, the Parties seek to strike a balance between sending a strong economic signal, while giving customers the opportunity to make long-term investments in conservations.

CFC further claims that the assumption the conservation measures may be costly is faulty and refers to suggestions on EPA's website for water conservation measures that, according to CFC, “cost very little or nothing at all.”²⁰ However, some the identified conservation measures can be impracticable. Detection and repair of water leaks typically is *very costly* and time consuming. The other EPA measures CFC endorses, albeit less costly, lack common sense application for water utilities to enforce or include in their rate structures (*e.g.*, running dish washers and washing machines only when full, replacing faulty toilet water flaps, *etc.*).

It should be noted, however, that the Settlement Agreement does not preclude the Parties from pursuing other forms of conservation, such as some of the measures

¹⁸ CFC Comments at 13.

¹⁹ CFC Comments at 13-14.

²⁰ *Id.* at 14.

proposed by CFC. Many of those issues will be addressed in Phase II of this proceeding. The proposed conservation rates in the Settlement Agreement are one form of conservation incentives, not the exclusive one.

K. Conservation Rates Under the Settlement Agreement Provide Economic Signals To Conserve Water.

CFC claims that the Settlement Agreement rates will not alert customers to the growing need to conserve water.²¹ CFC provides no basis for such a claim. It further asserts that municipal water utilities posted on the internet range from 15% to 100%. The Parties believe that the proposed rates under the Settlement Agreement will provide an effective economic alert to customers to conserve water. Comparing the initial conservation rates under the Pilot Program against the rates of municipal water utilities, some of which have had conservation rates in effect for over a decade, is not reasonable.

In Section III of the Settlement Agreement, the Parties acknowledge that this is a Pilot Program and that it will be reviewed in the next general rate case filing for each of GSWC's Regions. The Parties also agree that if the proposed Pilot Program results in a disparate impact on ratepayers or shareholders, the Parties agree to meet to discuss adjustments to the proposed Pilot Program. The Parties expect that, over time, the Pilot Program will be refined based upon lessons learned and additional data collected. To compare the initial phase of the Pilot Program to municipal utility water conservation rates that have been developed over many years serves no useful purpose.

L. Although Water Conservation Is Relatively More Difficult for Non-Residential Customers, the Proposed Conservation Rates Are Expected To Have an Effect on Non-Residential Customers.

CFC claims the non-residential rates proposed in the Settlement Agreement will not have much effect on non-residential customers' bills.²² CFC's assertion lacks merit. Because many non-residential customers are large users of water, an increase of up to 10% in the quantity rate will result in considerable increases in the dollar amounts of non-residential customers' bills. A big bill increase is likely to have a very significant effect on non-residential customers' efforts to conserve water.

²¹ CFC Comments at 15.

²² *Id.* at 16.

CFC further asserts that the decision to limit the non-residential quantity rate increase to 10% is based upon the faulty assumption that non-residential customers' use of water is fixed and cannot be reduced. The Parties stated that, when compared to residential customers, non-residential customers are much more limited in their ability to conserve. CFC's mischaracterizes this statement as an assertion that the Parties believe non-residential customers' use of water is "fixed and cannot be reduced." CFC proceeds to quote from an article that claims that commercial and industrial customers can save very substantial amounts of water by improving, among other things, bathroom and kitchen use.²³ Although the Parties believe that non-residential customers are capable of reducing water consumption, relying upon improved bathroom and kitchen use by industrial customers to substantially reduce their water consumption, as CFC seems to suggest, may not yield the relative level of hoped-for reduction in water consumption envisioned by CFC.

M. *The Quantity Rates In Regions II and III Have Been Increased, Not Decreased.*

CFC asserts that, contrary to the Parties' claims, the quantity rates have been decreased in Regions II and III. To prove CFC's point, CFC sets forth a comparison of the quantity rates that presently exist for Regions II and III and those set forth in the Settlement Agreement for Regions II and III.²⁴

However, CFC's allegations are based upon a misreading of its own chart. The quantity rates reflected in CFC's charts for Region II reflect a current quantity rate of 1.76 and a Settlement Agreement rate of 1.8095. Contrary to CFC's assertions, CFC's own chart reflects that the quantity rates under the Settlement Agreement are, in fact, *greater* than existing rates – *not less as claimed by CFC*. CFC similarly misread the quantity rates for Region III. CFC's own chart reflects that the current quantity rate for Region III is 2.1202 and the Settlement Agreement quantity rate is 2.1661. Again, CFC's own chart *refutes* CFC's allegation that the Settlement Agreement quantity rates have been decreased. In fact, those rates have been *increased*, just as the Parties' claimed.

²³ CFC Comments at 16.

²⁴ *Id.* at 17.

N. *CFC Requests the Commission Order Collection of Data for Non-Residential Customers That Would be Unduly Costly to Obtain.*

CFC appears to recommend that GSWC adopt a "budget-based" rate approach for its non-residential customers. According to CFC, such an approach would include base indices of water use that are determined from actual historical water use for each individual customer, and the monthly water bill is calculated by comparing actual usage with the base index.²⁵ CFC further recommends that the Commission order GSWC to immediately begin gathering average usage data for non-residential customers and sufficiently specific, identifying data so that effective conservation rates can be established for these customers.²⁶

The Commission should reject CFC's recommendation that GSWC implement a "budget-based" rate approach. CFC has not established any basis for the Commission to set rates based on a "budget-based" rate or on average consumption. In addition, if GSWC correctly understands CFC's proposed rate design for non-residential customers, it would require developing a specific rate or customized bill for each non-residential customer. GSWC has over 37,000 non-residential customers in Regions II and III. To develop and implement such a rate design would be costly and complex, and would be difficult to explain to GSWC's non-residential customers. Accordingly, GSWC recommends CFC's proposed "budget-based" rate approach, and associated data collection request, be rejected.

CFC also recommends that in addition to the size of meters used by every individual non-residential customer, GSWC should collect data on the types of [water conservation] equipment installed by each non-residential customer and the efficiency level of existing equipment of every non-residential customer of GSWC. Finally, CFC recommends that the number of units in apartment buildings should be determined so that rates can be designed to encourage conservation by the building owners and tenants.²⁷

However, the cost of collecting all of this information may not yield sufficient benefit to warrant collection of this data. Before ordering GSWC to incur the costs of collecting this data, GSWC recommends that cost of obtaining such information be

²⁵ CFC Comments at 19.

²⁶ *Id.*

²⁷ CFC Comments at 19.

identified, as well as the need for or benefit of obtaining such information. There may be more cost effective ways of obtaining the necessary information to develop conservation rates for non-residential customers. Until such analysis is undertaken, it is premature and unwarranted for the Commission to order GSWC to collect such data and incur such costs.

O. *The Rates in Wrightwood and Desert Should Remain Frozen Pursuant to Commission Order.*

CFC claims that "[w]hile rates in Wrightwood and Morongo Valley were to remain frozen until 2015, rates in Apple Valley were to remain frozen only until 2006. Further, it is not clear that the implementation of conservation rates in Morongo Valley and Wrightwood would violate D.00-06-075, since the Commission was requiring the level of rates collected be frozen, and not the design of rates."²⁸ However, one cannot change the design of rates without affecting the level of rates. The two are inextricably tied together. Regarding the Apple Valley rates, D.00-06-075 states that "SCWC projects that rates in Calipatria-Niland would remain frozen until the year 2003; rates in the Apple Valley system would remain frozen until 2006;"²⁹

Currently all of the frozen districts rates, including the rates in Apply Valley, are higher than other Region III service area rate. And according to the decision, those rates should remain frozen until the rates in the other Region III service areas reach those of the frozen districts. The Parties disagree with CFC's assertion that the Commission froze the rates, but not the rate designs for these high-cost service areas. Contrary to CFC's assertion, the Parties believe that redesigning the rates would result in some customers' rates in Wrightwood and Desert being increased, which would be in direct violation of the Commission's order in Decision D.00-06-075.

P. *The Proposed Rates Incorporate the Impact of the Seasonality of Water Use by using Seasonal Averages to Establish the Tier Break Points.*

CFC appears to desire seasonal rates and seems to argue that the conservation rates proposed by the Parties are not "seasonal rates." CFC claims that increasing block

²⁸ *Id* at 20.

²⁹ D.00-06-075 at 5, emphasis supplied.

rates do not address peak demand periods, and refers to its "testimony and briefs" filed in this proceeding to allegedly support such claim.³⁰

The Parties believe that the proposed rates in the Settlement Agreement incorporate the impact of the seasonality of water use by using the seasonal averages to establish the break points between Tier 1 and Tier 2. In Attachment 1 of the Settlement Agreement, Worksheet 2 RII Typical Bill and Worksheet 2 RIII Typical Bill show that if usage is at the summer average, customers will see an increase in their bills under the conversation rates proposed in the Settlement Agreement.

Contrary to CFC's assertion, the higher cost of water during peak periods is generally reflected in the increased rates for Tier 2 customers. Thus, those customers who contribute to the need to use higher-priced resources pay higher rates for consuming such higher-priced resources.

Q. *The WRAMs and MCBA's Are Reasonable and Necessary.*

CFC argues that the "WRAM/MCBA combination account" fails to achieve its intended purpose and unreasonably guarantees the utility recovery of revenues authorized in a rate case. CFC also asserts that the WRAM/MCBA rewards customer classes which do not conserve, with benefits achieved by classes which do conserve.³¹ CFC also argues that a WRAM is unnecessary for GSWC because "it is unlikely Golden State will see any erosion in revenues by conservation. Adoption of a WRAM would remove any incentive for Golden State to tighten its belt when circumstances develop calling for increased efficiency."³²

As the Parties noted in their Motion to Approve the Settlement Agreement, a WRAM ensures the recovery of certain costs regardless of sales volumes, reduces the relationship between sales and revenues. The WRAM and the MCBA have been structure to minimize the impact of individual customer consumption patterns upon GSWC's fixed cost recovery, while ensuring that GSWC does not over or under recover most of the authorized variable costs that depend on consumption volumes. Without a WRAM, a rate design that is intended to promote conservation could substantially reduce GSWC's earnings. The MCBA under the Settlement Agreement will capture variations

³⁰ CFC Comments at 21.

³¹ *Id.*

³² *Id.*

due to changes in unit price *and* changes in consumption. Under the MCBA, the ratepayers will receive the benefit of not having to pay for variable costs not incurred. Conversely, GSWC will be able to recover variable costs incurred but not included in the adopted rates. Working together, the balances of the WRAMs and the MCBAs will be combined so that an under-collection of revenues is recovered through a surcharge on ratepayers and an over-collection of revenues is given back to ratepayers through a surcredit.³³

CFC provides no evidence that the WRAMs/MCBAs are based upon customer classes. CFC also asserts, without any basis, that the WRAM is unnecessary because it is unlikely that GSWC will see any erosion in revenues by conservation. The Parties strongly believe that the Pilot Program will result in the reduction of water consumption by GSWC customers and, therefore, GSWC will see a reduction in revenues. Accordingly, WRAMs are necessary and appropriate for GSWC, in combination with MCBAs, as set forth in the Settlement Agreement.

In sum, CFC's and criticisms of the WRAMs and MCBAs, should be dismissed as lacking in merit.

R. *The Settlement Agreement Should Be Approved, Not Denied.*

CFC concludes its remarks by recommending that the Settlement Agreement "be rejected and conservation rates set in the manner recommended in the testimony and exhibits of CFC's witness offered in the Phase 1A hearing."³⁴ CFC has provided no basis upon which the Settlement Agreement should be rejected by the Commission. CFC's recommendation that GSWC's "conservation rates be set in a manner recommended in the testimony and exhibits of CFC's witnesses in the Phase 1A hearing" is not a reasonable request. CFC provides the Commission with no real rate proposals as an alternative to the specific and clearly-defined conservation rates proposed by the Parties under the Settlement Agreement. Accordingly, CFC's recommendation should be rejected.

³³ Motion at page 13.

³⁴ *Id.* at 22-23.

In summary, the Commission should dismiss CFC's criticisms of the Settlement Agreement as lacking in merit, refuse CFC's proposal to reject the Settlement Agreement, and approve the Settlement Agreement and the Pilot Program set forth therein as a solid first step towards the design and implementation of an effective conservation rate program for GSWC's customers.

Respectfully submitted,

/s/ MARCELO POIRIER

Marcelo Poirier
Staff Counsel

Keith Switzer
Vice President of Regulatory Affairs
Golden State Water Company
630 East Foothill Boulevard
San Dimas, California 91773
Phone: (909) 394-3600,
KSwitzer@gswc.com

Marcelo Poirier
Attorney
DIVISION OF RATEPAYER
ADVOCATES
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2913
Fax: (415) 703-2262
mpo@cpuc.ca.gov

December 4, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **“REPLY COMMENTS BY GOLDEN STATE WATER COMPANY AND DIVISION OF RATEPAYER ADVOCATES REGARDING COMMENTS ON SETTLEMENT AGREEMENT”** on all known parties to **I.07-01-022** by using the following service:

☒ **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding who provided electronic mail addresses.

☐ **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Dated at San Francisco, California this **4th day** day of **December**, 2007.

/s/ ANGELITA MARINDA

Angelita Marinda

SERVICE LIST

I0701022, A0609006, A0610026, A0611009, A0611010, A0703019

Kendall.MacVey@BBKlaw.com;
Ldolqueist@steefel.com;
ataketa@fulbright.com;
bdp@cpuc.ca.gov;
bill@jbsenergy.com;
bobkelly@bobkelly.com;
broeder@greatoakswater.com;
charak@nclc.org;
charles.forst@360.net;
chris@cuwcc.org;
cmailloux@turn.org;
dadelloso@sgvwater.com;
danielle.burt@bingham.com;
darlene.clark@amwater.com;
debbie@ejcw.org;
debershoff@fulbright.com;
demorse@omsoft.com;
dietrichlaw2@earthlink.net;
doug@parkwater.com;
dsb@cpuc.ca.gov;
dstephen@amwater.com;
ed@parkwater.com;
enriqueg@lif.org;
flc@cpuc.ca.gov;
fyanney@fulbright.com;
jcp@cpuc.ca.gov;
jeff@jbsenergy.com;
jguzman@nossaman.com;
jhawks_cwa@comcast.net;
jlg@cpuc.ca.gov;
jlkiddoo@swidlaw.com;
john.greive@lightyear.net;
jws@cpuc.ca.gov;
katie@cuwcc.org;
kswitzer@gswater.com;
leigh@parkwater.com;
lex@consumercal.org;
llk@cpuc.ca.gov;
lmcghee@calwater.com;
luhintz2@verizon.net;
lwa@cpuc.ca.gov;
lweiss@steefel.com;
marcel@turn.org;

mcegelski@firstcomm.com;
mlm@cpuc.ca.gov;
mmattes@nossaman.com;
mpo@cpuc.ca.gov;
mvander@pcl.org;
nancitran@gswater.com;
ndw@cpuc.ca.gov;
nsuetake@turn.org;
owein@nclcdc.org;
palle_jensen@sjwater.com;
phh@cpuc.ca.gov;
pschmiege@schmiegelaw.com;
pucservice@dralegal.org;
rdiprimio@valencia.com;
rkmoore@gswater.com;
rmd@cpuc.ca.gov;
sferraro@calwater.com;
sleeper@steefel.com;
smw@cpuc.ca.gov;
tfo@cpuc.ca.gov;
tguster@greatoakswater.com;
tjryan@sgvwater.com;
tkim@rwglaw.com;
trh@cpuc.ca.gov;